STATE OF CALIFORNIA—HEALTH AND WELFARE AGENCY

EDMUND G. BROWN JR., Governor

DEPARTMENT OF HEALTH SERVICES
714/744 P STREET
SACRAMENTO, CA 95814
(916) 445-1797

June 20, 1980

To: All County Welfare Directors

Amendment to
Letter No. 80-18

MEDICAID LONG-TERM CARE REIMBURSEMENT

Via letter No. 80-18 dated May 15, 1980 a "Public Notice of Changes in Statewide Method of Reimbursement for Skilled Nursing Facilities and Intermediate Care Facilities" was transmitted to you to make available for public review.

The attachment to Letter No. 80-18 indicated that the closing date for public comment was July 31, 1980. The closing date for public comment has been changed to July 17, 1980. Written comments should be directed to the Rate Development Branch, State Department of Health Services, 714 P Street, Room 1550, Sacramento, CA 95814. Please post this letter with the original proposed changes in your main county welfare office.

Sincerely,

Original signed by

Doris Z. Soderberg, Chief
Medi-Cal Eligibility Branch

Enclosure

cc: Medi-Cal Liaisons
Medi-Cal Field Representatives

Expiration Date: July 17, 1980

STATE OF CALIFORNIA—HEALTH AND WELFARE AGENCY

EDMUND G. BROWN JR., Governor

DEPARTMENT OF HEALTH SERVICES
714/744 P STREET
SACRAMENTO, CA 95814
(916) 445-8128

June 20, 1980

AMENDED PUBLIC NOTICE OF CHANGES IN STATEWIDE METHOD OF REIMBURSEMENT FOR SKILLED NURSING FACILITIES AND INTERMEDIATE CARE FACILITIES

On May 17, 1980 (Register 80, No. 20-Z), the State Department of Health Services published a public notice of proposed changes in the statewide method of cost-related reimbursement for skilled nursing facility (SNF) and intermediate care facility (ICF) services provided under the California Medical Assistance Program (Medi-Cal). Copies of the proposed changes were also made available for public review in the office of each local county welfare agency.

In the originally published public notice, the closing date for receipt of public comment was stated to be July 31, 1980. This notice is to advise that the closing date for receipt of public comment is changed to July 17, 1980.

Written comments regarding the proposed change in reimbursement should be directed to the Rate Development Branch, State Department of Health Services, 714 P Street, Room 1550, Sacramento, CA 95814.

Dated: June 20, 1980.

Original signed by

Beverlee A. Myers, Director

PUBLIC NOTICE OF CHANGES IN STATEWIDE
METHOD OF REIMBURSEMENT FOR
SKILLED NURSING FACILITIES AND INTERMEDIATE CARE FACILITIES

Notice is hereby given that the State Department of Health Services, pursuant to the authority vested by Section 103 of the Health and Safety Code and Sections 10722, 10725, 10740, 14000, 14062, 14100.1 of the Welfare and Institutions Code and in compliance with 42 CFR 447.205, which requires public notice of changes in statewide method of reimbursement, proposes to change the statewide method of cost-related reimbursement for skilled nursing facility (SNF) and intermediary care facility (ICF) services provided under the California Medical Assistance Program (Medi-Cal) as described below. Additions to the existing methods of reimbursement are indicated by underscoring and deletions have been dashed out.

COST-RELATED REIMBURSEMENT FOR SKILLED NURSING AND INTERMEDIATE CARE FACILITIES

I. Cost Reporting

A. All participating skilled nursing and intermediate care facilities shall maintain, according to generally accepted accounting principles, the uniform accounting system adopted by the California Health Facilities Commission and submit to the State the uniform cost reports adopted by the Department of Benefit Payments (copies attached). Where the accounting system conflicts with Medicare cost finding methodologies, the latter will prevail.

1. Annual reports are due to the State no later than 90 days after the close of each facility's fiscal year commencing with fiscal years ending on or after January 1, 1977.

2. Each facility shall maintain their supporting financial and statistical records for a period of not less than three years following the date of submission of their cost reports and shall make such records available upon request to authorized state or federal representatives.

3. All costs reports received by the State shall be maintained for a period of not less than three years following the date of submission of reports.

B. Allowable Costs shall be as specified in 42 CFR 447.281, and shall include a return on net equity for for-profit facilities only.

II. Audits

A. The State will perform desk reviews of all cost reports within six months of submission and will field audit one-third of the cost reports each year for the first three years so that each provider will have been audited by the end of the third year. (Copies of the audit program are attached.)

B. After the first three years, a minimum of fifteen percent of the cost reports will be field audited each year. At least one-third of the facilities to be audited will be selected on a random sample basis and the remainder shall be selected on the basis of exceptional profiles.

C. Upon the conclusion of each field audit, the auditor shall submit to the state agency a report of the audit. The submitted reports of audits shall meet the provisions of 42 CFR 447.294 (b) (1) and (2), and shall be retained by the State for a period of not less than three years following the date of submission of such reports.

D. Overpayments found in audits will be accounted for on the SRS OA-41 report no later than the second quarter following the quarter in which found.

E. Facilities will have the right to appeal audit findings as set forth in Section 51016 et seq., Title 22, California Administrative Code.

III. Determination of Reasonable Cost-Related Payments

A. The State shall set annual prospective rates for reimbursement for services for various classes of facilities including levels of care and special programs, which reasonably take into account economic conditions and trends during the time period covered by the rates.

1. Participating providers shall be grouped into classes for purposes of setting payment rates on the basis of the following criteria:

(a) Level of care (SNF, ICF).

~~(b) Number of beds (1-59 and 60+ except for ICF-DD which shall be 1-59, 60-99 and 100+ to recognize the costs of programmatic difference);~~

(b) Freestanding facilities or distinct parts of acute care facilities. Payment for distinct parts shall be the lesser of costs or the prospective rate.

~~(c) Geographical location (using the same geographical areas as are used by the U.S. Department of Labor, Bureau of Labor Statistics for purposes of publishing the Consumer price index):~~

~~(1) The San Francisco-Oakland-SMSA~~

~~(2) The Los Angeles-Long Beach-SMSA~~

~~(3) The San Diego-SMSA~~

~~(4) Remainder of the State~~

(c) Number of beds (1-59, 60-299 and 300+ except for ICF-DD facilities which shall be 1-59, 60-99, 100-299 and 300+ to recognize the costs of programmatic differences). Payment for 300+ facilities shall be the lesser of costs or the prospective rates.

(d) Geographical location except for the 300+ facilities, distinct parts of acute care facilities and ICF-DD facilities. The geographical locations shall be as indicated in the following:

(1) San Francisco, Marin, Alameda, Contra Costa, Santa Clara and San Mateo counties.

(2) Los Angeles County.

(3) All other counties.

2. Prospective rates for each class shall be determined annually for each fiscal year on the basis of the cost reports submitted by facilities of that class during the preceding calendar year, as adjusted pursuant to III. B., III. C., and III. D.

3. The prospective payment rate per patient day shall be set at the median of costs for the class, as determined under III. A. 2.

4. Additional amounts, where appropriate, shall be added to the payment rates of individual providers in the class to reimburse the following costs of meeting requirements of state or federal laws or regulations which would not be incurred by

all members of the class; which shall include, but are not limited to costs of SNF-MD (with rehabilitation program); SNF-MD (with subacute psychiatric program); or ICF-DD.

5. At least annually, the payment rate for each class shall be adjusted to take into account any determinations that audit adjustments to cost reports used in setting payment rates were in error. The change in the payment rate from this adjustment shall be set at such a level as to be reasonably expected to assure that participating providers will ultimately be paid the amount they would have been paid if the payment rate originally set had included the appropriate adjustment.

B. A field audit adjustment percentage shall be determined for each of the following classes:

1. All field audited facilities with 1-59 beds.

2. All field audit facilities with 60+ beds.

This adjustment percentage shall be applied to all nonfield audited costs reports of facilities in the class. The adjustment percentage for the 60+ bed class shall also be applied to the 300+ bed class and distinct parts of acute care facilities. This adjustment shall be calculated as the simple average of the ratios of audited costs to reported costs for each of the cost reports selected at random for this purpose from among all the cost reports for the class. The sample size for each class shall be sufficiently large to reasonably expect, with 90 percent confidence, that it will produce a sample audit ratio which varies from the estimated class population audit ratio by not more than two percent. The minimum sample size for each class will be no less than fifty facilities.

C. Audited costs per patient day for each facility's fiscal year shall be adjusted to reflect the cost impact of changes in state or federal regulations which would affect their costs.

D. Update adjustments will be applied to cost data that have been adjusted for estimated audit variances. The monthly update adjustments will be determined using: The California Consumer Price Index, as determined by the California Department of Finance for future months; the U.S. Producer's Price Index; and recent historical cost trends in the industry, measured as the average increase in reported cost for all providers in their most recent reporting year over their previous year, excluding the impact of cost changes mandated by state or federal laws or regulations.

The actual monthly update adjustment will be the average of the components of these three factors which are relevant to the costs of the industry, weighted proportionately, adjusted for other

economic conditions, as supported by substantial evidence, and as confirmed through the public hearing process, not to exceed the Presidential Wage and Price Guidelines.

The monthly update factor, when determined, shall be applied for all classes, from the midpoint of each provider's fiscal year to the middle of the fiscal year to be covered by the rates.

IV. Public Consideration

A. Public hearings will be held at which time the State will present its evidentiary base and a report of the study methodology and findings.

1. Interested parties will be notified of the time and place of the hearing by direct mail and public advertising in accordance with State law.

2. Comments, recommendations, and supporting data will be received at the public hearings and considered by the State before certifying compliance with the State Administrative Procedures Act.

The proposed changes in reimbursement methodology will reduce county and local government expenditures and increase state and federal expenditures by an estimated annual $88.7 million dollars.

Changes in the reimbursement methodology are to provide a measure of immediate relief to those facilities which face the greatest disparity between Medi-Cal reimbursement and actual facility costs. The Department recognizes that SNF and intermediate care facilities for the developmentally disabled (ICF/DDs) with bed sizes of 300 or more have consistently higher average costs than smaller facilities. SNF distinct parts of acute care hospitals also have inherently higher costs than freestanding SNFs. The latter distinction has also been recognized by the Medicare program.

Current rates are determined by computing the median of adjusted costs based on facility cost reports and inflationary factors. These medians are calculated for each of several categories based on bed size and geographic area. The rates for each of the proposed new categories will be computed by identifying the median cost for each category on a statewide basis. The rates for the new categories are computed on a statewide basis rather than by geographic area because there are too few facilities in each category to make valid geographic distinctions. Facilities in the new rate categories will be paid costs up to the median, but not more than actual facility costs.

The Department has made copies of the changes in the statewide method of reimbursement for SNFs and ICFs available for public review in the office of each local county welfare agency. Additional copies may be obtained by writing to the Rate Development Branch, State Department of Health Services, 714 P Street, Room 1550, Sacramento, CA 95814.

Written comments regarding the proposed change in reimbursement should be directed to the above address where such comments will be made available for public inspection. The closing date for public comment shall be July 31, 1980.

The proposed effective date for implementation of the proposed reimbursement changes is August 1, 1980

Dated: May 13, 1980

Original signed by

Beverlee A. Myers
Director
Department of Health Services